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Pensions & Investments

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GM fallout: Who will be next?

American Express, IBM, others may feel heat

BROOKE HUMMER

Activists say Sears' Edward Brennan is among those who may be next on the hot seat.

By Joel Chernoff

After the shake-up at General Motors Corp. this month, the question is, "Who's next?"

While shareholder activists do not hold crystal balls, they do have their favorite targets. On their short lists of companies in most dire need of a good working over: American Express Co.; IBM Corp.; Sears, Roebuck and Co.; and Champion International Corp.

These companies, according to pension executives, their advisers and academics, are classic underperformers with failed corporate strategies and in need of new leadership.

Pension executives have good reason to pay heed to whether boards of directors are doing their job. The day after the announcement of the shake-up at GM, the automaker's stock jumped $1.25 a share, while the Dow Jones Industrial Average fell 62 points.

Shareholder activist Robert A.G. Monks called the increase in stock price a "governance dividend." Mr. Monks, who is urging shareholders at Sears to support five proxy resolutions — including one calling for a study on restructuring of the company — told the Council of Institutional Investors that directors on other corporate boards should emulate the example set at GM.

Experts warned, however, boards will not shift their perspective to an aggressive mode from a compliant one overnight, noting it took GM's board years to take action.

IBM, for example, has been slow to shift to personal computers from mainframes. "Does that mean the board will act to throw out management? I don't think boards will act that precipitously," said Jay Lorsch, the Louis Kirstein professor of human relations at the Harvard Business School.

Nevertheless, institutional shareholders are likely to apply pressure on board members who fail to assert themselves, and will cite the GM example, said John Nash, president of the National Association of Corporate Directors, Washington.

"I think the stage has been set. Boards have to act, and managements have to be held account-

See **Targets** *on page 33*

TERRY VITACCO

AT&T's Joseph Russo says real estate values are still too high.

Real estate may drop 15% more

By Steve Hemmerick

Shaky pension fund real estate portfolios likely will be slashed in value by 15% to 20% this year, the deepest cut ever.

Real estate money managers wrote down property values in pension fund portfolios at the rate of almost 12% last year but still are not cutting deep enough or fast enough, consultants say.

The 1992 writedowns amount to a $15 billion to $20 billion chunk cut from the approximately $100 billion pension funds have invested in equity real estate.

This year the cutting will be "more painful" for pension plans, said Rodger Smith, a partner with the consulting firm Greenwich Associates, Greenwich, Conn. It should have been done last year, he said.

Blake Eagle, president of The Frank Russell Co.'s real estate group, Tacoma, Wash., said some reductions in value could come from retail malls, many of which, he said, remain overvalued.

The tip-off to how deep prices need to be cut came from information real estate money managers supplied in various surveys showing they wouldn't pay the high prices they have placed on the real estate in the portfolios they are managing.

A survey by Salomon Brothers Inc., New York, found a spread of 330 basis points between the bid and ask prices for real estate. A 50 to 70 basis point spread is normal.

In the Salomon survey, the

See **Values** *on page 35*

AT DEADLINE

PBGC seeks TWA ruling

The PBGC wants a federal district court in Kansas City, Mo., to declare constitutional legislation that holds subsidiaries controlled by Trans World Airlines owner Carl C. Icahn liable for TWA's $1.1 billion in pension underfunding.

The legislation, known as the Danforth amendment, would make those subsidiaries liable as long as Mr. Icahn directs the airline. A spokesman for TWA said the company believes the plans are well funded and the legislation is unnecessary.

Pension funds beat EAFE

U.S. pension funds' international portfolios returned −5.4% for the first quarter, reported WM Co. The composite performance of the 51 portfolios was far better than that of the EAFE, which returned −11.8%.

Six global portfolios measured by WM fell an average of 4.8% during the period, compared with an 8% drop in the MSCI World Index, WM said.

For the year ended March 31, the international portfolios returned −1.5% vs. −7.7% for the EAFE. The global portfolios were up 3.7% for the year, while the MSCI World Index returned −0.5%.

County drops manager

The $1.1 billion San Bernardino County Employees' Retirement Association dropped Strategic Global Investments, which had been associated with Robert Maxwell, as its global fixed-income manager.

Raymond A. Fleming, administrator, said the dismissal "had nothing to do with the people who were actually running the money. It had nothing to do with the way they were running the money. It had more to do with

Continued on page 34

Chicago firms stay above water

By Curtis Vosti

CHICAGO — Disaster preparedness plans, flexibility and a cooperative spirit helped Chicago investment managers, consultants and pension funds weather the April 13 Chicago flood.

As the flood's effects carried well into a second week, more than a dozen buildings — including some housing large money management firms — remained without heat, electricity or phones as their tenants worked from temporary sites.

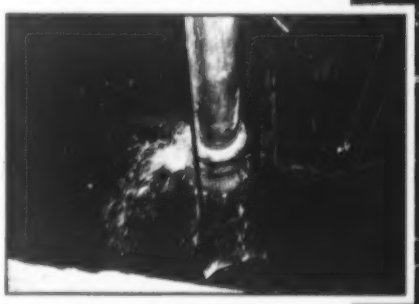
The inconvenience was minor, however, compared with flood day, when an estimated 250,000 people were evacuated from and power shut off to more than 100 buildings in much of the central Loop, including the financial district, and institutional investors kicked in emergency plans they had hoped they would never have to use.

Alternative backups to existing computer backups were implemented as the firms feared widespread and prolonged power problems. Staff members flew or drove to remote sites, sometimes several times. Temporary telecommunications equipment enabled stricken firms to maintain trading and communications links with understanding clients.

As a result, the business of investment management proceeded nearly without missing a beat.

One of the worst hit businesses

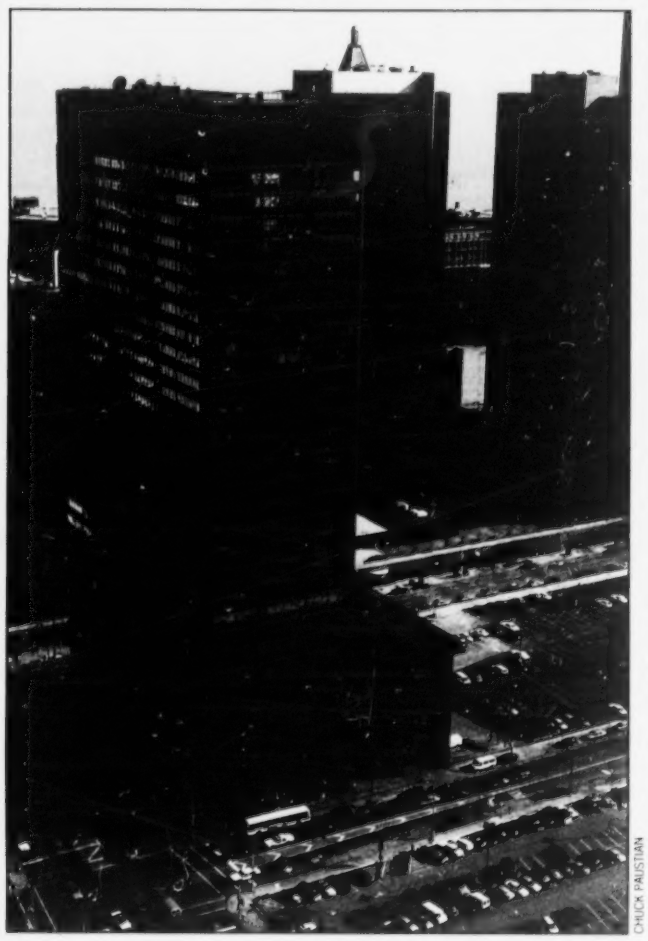
See **Flood** *on page 33*



The CBOT's sub-basement, above, was flooded with 35 feet of water, and workers busily tried to re-open the exchange.

ANTHONY F. FICKE

NEWS DIGEST



CHUCK PAUSTIAN

The Illinois Teachers' Retirement System's stake in land adjacent to the Time-Life Building could pay off big if a casino and entertainment complex is built in Chicago. Page 26.

Although SEI Corp. executives insist they're not abandoning consulting, they're offering more in the way of financial services. Page 24.

Connecticut Gov. Lowell P. Weicker Jr. is calling for changes in the funding of and benefits provided by two state pension funds. Page 29.

SPECIAL REPORT: NEW ALTERNATIVE INVESTMENTS

More liquidity and private placements in unusual assets are the hallmarks of new investment products being touted to pension fund executives. Page 15.

FINANCING

The Time Warner bond issue was greeted with yawns from institutional investors. Page 2.

INTERNATIONAL

The Japanese equity market's drop — more than 50% in the past 30 months — has investors looking cautiously at select stocks and industries. Page 2.

John Major's election victory is not expected to speed reform efforts sparked by the Maxwell scandal. Page 3.

REAL ESTATE

Property portfolio values could fall another 15% to 20% this year, the deepest cut ever. Page 1.

Washington and Ohio state funds saw their share of the Cadillac Fairview deal plummet in 1991. Page 3.

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Investors creep into Japan

Caution, selectivity highlight return to battered market

Some institutional investors have begun to show cautious optimism in the face of the continuing falling Japanese stock market.

But optimism appears limited to selective stocks and sectors, driving investors further away from the disappointing market-capitalization indexing of international investing.

One pension fund investor, however, has increased its broad exposure to Japan gradually over the past 18 months through a so-called completeness fund. Ronald C. Boller, vice president and director-benefit and risk finance, Owens-Illinois Inc., Toledo, Ohio, which has a $2.3 billion pension fund, said he was worried a turnaround could leave the fund behind despite the outperformance of its active international advisers, who severely underweighted the Japanese market. He said he didn't have available updated figures on Owens-Illinois' allocation to Japan.

"We thought it was a bigger gamble to be too far out" of Japan, he said.

Investors and analysts show no consensus on the near-term outlook for an end to the protracted decline in the Japanese stock market, which has fallen 57% in the past 30 months and has been passing through one psychological barrier after another.

"It's a slow, dripping torture," said Iain A. Watt, senior investment officer, Edinburgh-Wilmington International Capital Management, Edinburgh, Scotland.

But he believes a turn might be near. "We've been moving money back into Japan in a big way," Mr. Watt said. "In the short term, that hasn't been too clever."

From a low international weighting of 7%, Edinburgh-Wilmington has moved back to the weighting of the Morgan Stanley Capital International Europe Australia Far East Index, now about 43%. Stock buying is selective; industrial companies are one favored sector, such as **Honda Motor Co. Ltd.** and **Sony Corp.** Other favored sectors include housing, construction and specialty retailing.

"We sold out of Japan in late 1989 because interest rates began

See **Japan** *on page 35*

Time Warner issue no sizzler

Debt deal hampered by rating and yield

By Anne Schwimmer

Time Warner Inc.'s planned private debt financing is slipping through the cracks, failing to excite buyers of either investment-grade or high-yield debt.

Some investors say the below-investment-grade rating of Time Warner gives them pause. Meanwhile, investors who normally purchase junk bonds aren't enticed by the issue's yield. None would talk for attribution.

"This is not a screaming buy," said one money manager, who nevertheless intends to purchase some of the bonds.

Notably, one portfolio manager at an insurer investing in the deal said he likely will put one piece in his high-yield portfolio and another in his investment-grade portfolio because the issue really straddles the border between the two types of bonds.

The company has scaled back the huge planned offering of 10-year and 20-year senior notes to a total of $750 million from the initial $1 billion, investors said.

The investors said the expected price on the $250 million of 20-year senior bonds is 10⅛% or about 208 basis points over comparable U.S. Treasury securities. The expected price on the $500 million of 10-year senior bonds is 9⅝%, or about 207 basis points over comparable Treasuries, they said.

But, investors said, the company has agreed to add another 25 basis points above those coupons if the company has not been upgraded to a BBB rating, or investment grade, by the end of the year. Also, Time Warner has agreed that if the debt deal has not been registered publicly by the end of the year, it will pay an additional 50 basis points as well.

A Time Warner spokesman said the company could not comment on the private financing. A spokeswoman at Merrill Lynch & Co., New York, the lead agent on the deal, also declined comment.

Portfolio managers at money management firms and insurance companies said the deal is rated BB, or a top-tier high-yield bond.

See **Debt** *on page 31*

Pension coverage up slightly

By Anne Schwimmer

The number of non-farm salaried workers covered by pension plans in the United States increased slightly between 1988 and 1990 after decreasing during the previous nine years, research shows.

Research from the Employee Benefit Research Institute, to be released in May, shows 51.2 million employees — or 42.9% — were included in an employer's pension plan in March 1990, vs. 50.8 million (42.7%) in March 1989 and 49 million (41.6%) in March 1988.

Two earlier studies, however, showed declining coverage.

A study by two economists — David E. Bloom of Columbia University and Richard B. Freeman of Harvard University — showed pension coverage for non-farm workers between the ages of 25 and 64 decreased to 57% in 1988 from 63% in 1979. And earlier EBRI data showed coverage of all salaried non-farm workers decreased to 44.4% in May 1988 from 49.5% in May 1979.

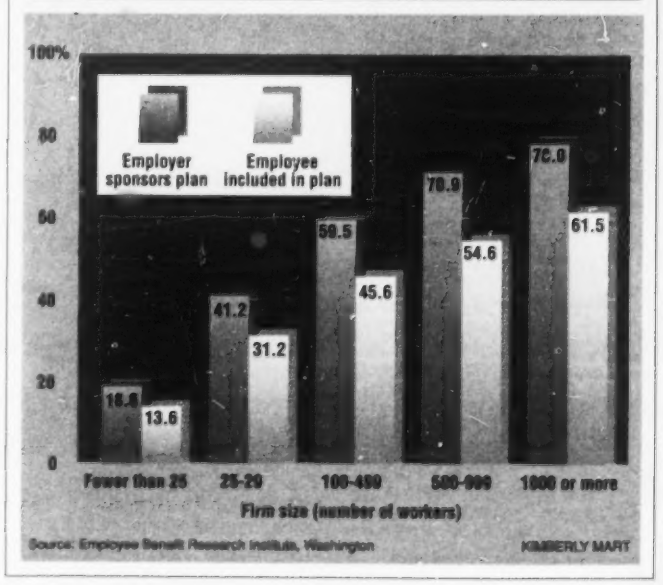
(EBRI's 1988 statistics differ in its two studies because the March study asked more detailed questions and got a higher response rate than did the May survey, said Dallas Salisbury, president of EBRI.)

One reason for the slight upturn is the issuance of new pension regulation has stabilized, Mr. Salisbury said.

"You've had time (now) to react to most of the changes of the tax act of 1986. There basically has been no pension regulation since

See **Coverage** *on page 32*

Pension coverage and participation



TREASURY MANAGEMENT

Women continue to earn less than male counterparts

■ The average salary earned by treasury professionals last year was $58,680, compared with $54,110 in 1990, according to a survey by the Treasury Management Association.

Survey respondents reported an average salary increase of 6.7% from their 1990 earnings.

Female executives, however, continued to earn less than their male counterparts. According to the survey of 592 treasury management practitioners and 204 bankers, the average salary for female respondents was $49,480, compared with $64,480 for male respondents.

The survey was conducted in October 1991. Results of the survey were published in the January/February issue of the association's Journal of Cash Management.

— *Fred Williams*

Salaries for selected titles

Current title	Average salary
Assistant manager - cash mgmt.	$45,000
Assistant treasurer	$66,950
CFO/CEO	$98,280
Cash/financial analyst	$39,590
Cash manager	$45,380
Controller/comptroller	$64,040
Manager/director of banking	$63,030
Manager/director of cash mgmt.	$52,980
Manager/director of operations	$73,130
Supervisor/cash analyst	$44,290
Treasurer	$76,900
Treasury analyst	$40,100
Treasury manager	$56,520
Vice president	$66,670
Vice president/treasurer	$91,820
Other corporate	$62,790

Source: Treasury Management Association Journal of Cash Management — J. SMITHER/C. WATSON

REAL ESTATE

Real estate firm puts time frame on asset sales

■ Ibex Institutional Advisors, Miami, has a strategy to boost the liquidity of real estate investments.

The firm expects to sell each of its properties within three to five years of making its investment, according to Jose F. Rosado, the real estate adviser's chief executive officer.

In fact, Mr. Rosado, who has nearly 20 years' experience in real estate, including helping to form in 1978 and heading Shearson Properties International, said, "We've never held a property more than three years."

Ibex, which was founded in 1987 and has $120 million in equity real estate investments under management — split 70% in apartment complexes and 30% in office buildings — recently was retained by the California Public Employees' Retirement System, Sacramento, its first pension fund client. The California fund retains discretion on whether to invest in properties IBEX presents to the pension fund.

— *Barry B. Burr*

PEOPLE

Council chooses members for executive panel

■ The Council of Institutional Investors has elected Carol O'Cleireacain, New York City finance commissioner, as chairwoman of its executive committee.

Ms. O'Cleireacain, the first woman to hold the post, also is chairwoman of the New York City Employees' Retirement System and New York City Teachers' Retirement System and is a trustee of the New York City Police Department Pension Fund and the New York City Fire Department Pension Fund. The committee plans ICC policy and strategic direction for the council.

Elected as co-chairs to the committee were Kathleen Brown, California state treasurer; Tom Gallagher, Florida state treasurer and insurance commissioner; and Marvin R. Hrubes, representative of the United Food and Commercial Workers International Union Staff Trust Fund.

Founded in 1985, the council represents 66 large pension funds and addresses issues that affect the size or security of pension assets.

— *Sabine Schramm*

INTERNATIONAL

'91 not kind to big British managers

■ 1991 was a bad year for the performance of large British money managers, reports Combined Actuarial Services, a pension fund performance measurement service.

Calendar-year 1991 returns for three of the four largest U.K. managers — Scottish Widows' Fund & Life Assurance Society (13.8%), Scottish Amicable Life Assurance Society (11.6%) and Provident Mutual Life Assurance Association (13.9%) — were well below the 17.4% return of the average manager.

The worst performer was Provident Life Association, returning 8.8%.

For the year, Lloyds Investment Managers Ltd. was the top performer, returning 20.5%, followed by Baillie Gifford & Co., at 20.3%, and Eagle Star Insurance Co. Ltd., 19.9%.

The CAPS survey covers 80 investment managers managing $34 billion for smaller pension schemes.

— *Aidan O'Sullivan*

PUBLIC FUNDS

$2 billion to stay with California

■ A denial of a court petition seeking to force California Gov. Pete Wilson to return $2 billion he took from the California Public Employees' Retirement System has left state employees in shock.

Anne Stausboll, an attorney with the California State Employees Association, one union that represents state employees, said employees thought they would win approval of the petition filed with the 3rd District Court of Appeals in Sacramento, in part because the money the governor took was interest earned on employee — not state or employer — contributions.

The court's decision could affect pension funds in states, counties and municipalities throughout the nation, said Ms. Stausboll.

Six public pension funds and three pension organizations, many of them outside of California, had filed friend of the court briefs in support of the petition.

In the decision, the appellate judges stated, "Petitioners claim that this reallocation of investment earnings impairs the vested contract rights of (system) members. We will conclude that no contract rights are impaired."

The appeals court also denied the employees' request to stop the transfer of the responsibility for actuarial determinations to the governor from the trustees.

Employees have asked the court for a rehearing on the petition.

Employee groups also plan to seek statewide approval from voters on an initiative that would return selection of an actuary to the trustees. The Nov. 3 initiative also would amend the state constitution, limiting future legislative actions concerning public pension systems.

Jake Petrosino, a system trustee, said employees have twice the number of registered voter signatures needed to get the initiative on the ballot.

— *Steve Hemmerick*

AP/WIDE WORLD PHOTOS

California Gov. Pete Wilson won a round in the fight over the appropriation of fund assets.

WASHINGTON

Congressman wants funds to look at munis

■ Rep. Tom McMillen, D-Md., wants to dress up municipal bonds to attract pension funds.

Pension funds could get an extra 43 cents for every dollar in returns through a federal subsidy under Rep. McMillen's "Invest in America Act," which is expected to be introduced this month.

Mr. McMillen believes the subsidy would not cost the government a cent. He says the flow of assets into the bond markets would drive down yields and send the average investor out of municipal bonds into taxable investments, creating revenue for the federal government. In addition, lower interest rates would allow local governments to raise additional money for new projects without going to the taxpayer.

Pension funds generally have not been drawn to the municipal bond market because they don't need the tax break that the lower-yielding bonds offer. Some union pension funds are studying his proposal.

"That sounds ingenious," said Herb Dyer, executive director of the $13.2 billion Maryland State Retirement and Pension System. Mr. Dyer said he would be concerned if the influx of assets drove bond yields to less than 7.5%. Most pension funds have actuarial assumption rates of 7.5% and higher and would not make an investment that promised returns lower than that rate, he said.

"If these are priced on a credit basis more attractively than corporate (bonds), then (pension funds) will buy these," said Michael Shone, president of Peirce Park Group, Wilmington, Del., a consultant.

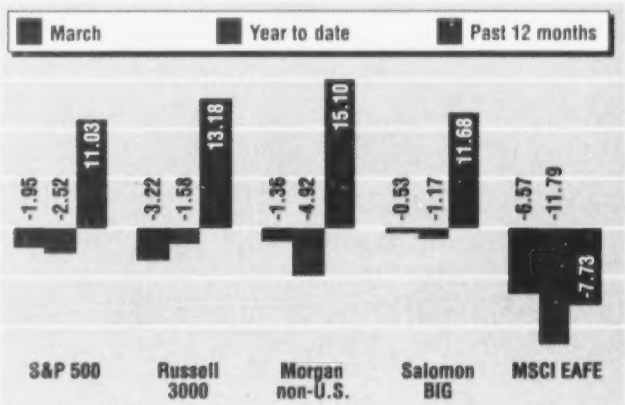
But Mr. Shone does not believe the subsidy would be revenue neutral. And he cautioned municipalities still have to pay off the debt, which, as the federal government cuts back aid to local governments, could create some enhanced credit risk.

In addition, future pressure on the federal government to cut expenses could force the government to retract the subsidy at a later date, Mr. Shone said.

— *Hillary Durgin*

Pensions & Investments' indexes

The P&I monthly indexes track changes in the Standard & Poor's 500 Stock Index, Frank Russell Co.'s Russell 3000 Stock Index, the J.P. Morgan non-U.S. Government Bond Index, the Salomon Brothers Broad Investment Grade Bond Index and the Morgan Stanley Capital International Europe Australia Far East Index.



Source: Rogers, Casey & Associates and Frank Russell Co. JOHN SMITHER

TRUST SERVICES

Continental creates 2 trust units

■ Continental Bank has formed two trust subsidiaries in a move to strengthen its position as a provider of trust services.

The $130 billion in institutional tax-exempt assets administered by Continental's trust department will move to Continental Trust Co., Chicago. Jim Nemec Jr., senior vice president-securities services at Continental Bank, is managing director of the new Chicago-based subsidiary.

Jack Kruger, vice president in the trust department, will be managing director of the New York subsidiary, whose name — The New York Trust Co. — is pending approval. The New York subsidiary is chartered as a limited purpose trust company, handling processing, settlement and payment services.

Although there is a formal process of notification to customers, it will be business as usual.

The New York subsidiary will be able to provide services to New York-based accounts, particularly insurance companies that because of legislative restrictions cannot move assets from state to state.

The subsidiaries will be more focused as a business, added Mr. Nemec. He sees the trust companies expanding into facility management for other trust departments and going into joint ventures with other banks exiting the trust business.

— *Sabine Schramm*

Portfolio

Continued from page 3

ment, the value of that land drops sharply. The two pension funds also plan to refuse tenant demands for major tenant improvements, as much as $50 a square foot. But that might mean lower rents for the properties than what the pension funds had expected.

Washington and Ohio officials say they are worried about the economy and the effect on the portfolio of social and environmental issues. (The properties primarily are in Dallas, Chicago, Washington, D.C. and Southern California.)

The portfolio, for example, includes Pacific Gateway, a 19-building industrial park in Torrance, Calif. near Los Angeles. Washington officials fear defense and aerospace industry layoffs in the area could cause a further downturn in California's economy and affect the industrial park.

Also, sale of Pacific Gateway has been blocked because it is near a site built during World War II for the manufacture of artificial rubber and might become a Superfund clean-up site.

The Illinois land holdings are mostly near Chicago in Lake Forest and Du Page County. But land sales are difficult because of the economic downturn and restrictive bank financing.

Some 73% of the portfolio's 8 million square feet of office space is in Texas, primarily in the Dallas area, which remains in a slump. Local portfolio tenants include two troubled banks — MBank and First City Bancorp.

"Who knows what the economy is going to do. . . . If we go into another stall and a double- or a triple-dip recession, that is going to be troublesome for every real estate portfolio," said Kevin Mahony, Copley's chief investment officer.

Copley charges about 75 basis points per year of the total value of the $1.8 billion portfolio. Prentiss charges about 3% of gross revenue, a standard fee.

Copley and Prentiss have earned — but not taken all of — about $99 million in fees so far. Some of Copley's fee — both earned and in the future — is expected to be reduced, and some of Prentiss' deferred. Fund officials would not disclose to what extent fees would be reduced.

By 1989, Copley and Prentiss had sold about $1 billion worth of the original investment, at what Washington officials described as high prices. Copley returned some of the money to investors, $59 million to Washington, but began development projects so the portfolio remains about the same size.

"Over the course of five years, we have built all over," said Mr. Prentiss. Developments included major office buildings in Dallas. "We turned around and built a bunch of new buildings. We didn't build them to lose money."

Ohio's Mr. Mitchell said he doesn't agree with everything the Washington fund wants to do with the portfolio, nor Washington with him. But "we have sort of got our arms around it."

The Washington and Ohio officials declined to identify the area of disagreement. But a source said the issues primarily involve matters of degree of action. At this point, the funds plan to sell some properties, improve others and possibly return at least one property to the lender.

Pension fund staff members and advisers say they need a national economic turnaround to give an economic lift to the portfolio. ■

Coverage

Continued from page 2

1987 and so the environment has stabilized," Mr. Salisbury said.

But he warned because of the recession, "there's every reason to assume that when we see figures for 1991 and 1992 we may well see some erosion."

The increase in coverage still is dwarfed by the size of last decade's decline, mostly at smaller companies.

Contributing to the decline of plan coverage is the rising cost of health care; a shift in workers to smaller companies; corporate downsizing; and the rise in the use of defined contribution plans, as some employees opt not to participate in those voluntary plans.

With health care costs skyrocketing, Mr. Salisbury noted, small companies no longer can afford both health and pension benefits. And employees faced with a choice, typically will choose health insurance, he said. "Health care inflation during the '80s probably did more than any other thing to cause a decline in pension coverage and participation."

According to EBRI, the larger a company, the greater the likelihood it will offer a pension plan and the more employees will be covered.

At the large corporate level, however, there is a burgeoning sense of responsibility for employees' pension coverage.

But large companies still are laying off people, increasing the number of contingent workers, defined as part-time, temporary, "life-of-project" or leased employees.)

Richard S. Belous, senior economist at the National Planning Association, Washington, said he predicts the decline in employee coverage the United States is likely to see as a result of the recession will remain a fact of life for some time to come.

While some argue certain potentially covered workers are not being counted by the census surveys, Mr. Belous for his part argues the number of uncovered, contingent workers also is understated. As a result, he believes the percentage of employees covered by pension plans is going to drop to the 38% to 39% level and stay there after the economy has recovered.

Also integral to the decline of plan participants is the advent of voluntary pension plans — defined contribution plans like 401(k)s, profit-sharing plans and money purchase plans — that are overtaking the defined benefit plan as employers' plan of choice.

Defined contribution plans accounted for 80% of all pension plans in 1988, compared with just 67% of plans in 1975, according to EBRI. Meanwhile, in 1988, 32% of primary pension plans were defined contribution plans, up from just 13% in 1975.

"Between 1979 and 1988, the proportion of workers who had a plan at their company probably didn't change much, but the proportion included did decline a little, and what I think is part of the reason is voluntary plans," said Joseph Piacentini, director for pension issues at Aetna Life & Casualty Co., Hartford, Conn.

Some employees in companies with defined contribution plans have chosen not to participate, Mr. Piacentini said, which further reduces coverage.

This trend toward voluntary plans in the private pension system also could exaggerate the extent of the coverage drop, Mr. Piacentini argued.

Dallas Salisbury says rising health care costs have reduced pension coverage.

He said the nature of the questions on the surveys, which are conducted by the U.S. Bureau of the Census, are confusing to employees who may not think of a defined contribution plan as a pension plan. Their own employers likely call these vehicles savings plans, rather than retirement or pension plans.

Studies from 1988 on have follow-up questions designed to catch people with defined contribution plans who, in answer to earlier questions, said they had no pension plan.

Without the follow-up questions included, about 50% of those surveyed in 1979 said they were covered by a pension plan, while 44% said they were covered in 1988. But, if the answers to the follow-up questions, first asked in 1988, are culled for discrepancies, 48% of those surveyed in 1988 were indeed saying they were covered by a pension plan, just a different kind of pension plan. ■

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